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INFO RUCPDC/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 0727
RUEHRL/AMEMBASSY BERLIN 0581
RUEHBY/AMEMBASSY CANBERRA 0604
RUEHLO/AMEMBASSY LONDON 1401
RUEHMO/AMEMBASSY MOSCOW 0727
RUEHOT/AMEMBASSY OTTAWA 0557
RUEHFR/AMEMBASSY PARIS 1260

UNCLAS SECTION 01 OF 03 PRETORIA 000214

SIPDIS

C O R R E C T E D C O P Y (SENSITIVE CAPTION)

SIPDIS
SENSITIVE

STATE PLEASE PASS USAID
STATE PLEASE PASS USGS
DEPT FOR AF/S, ISN, EEB/ESC AND CBA
DOE FOR T.SPERL, G.PERSON, A.BIENAWSKI, M.SCOTT, L.PARKER

E.O. 12958: N/A
TAGS: ENRG EMIN EPET SENV BEXP MGMT SF MZ BC
SUBJECT: ESKOM AND MINES: AIMING FOR THE LIGHT AT THE END OF THE
TUNNEL

REF: A) Pretoria 168
B) Pretoria 132 and previous

PRETORIA 00000214 001.2 OF 003

¶1. (SBU) SUMMARY: South Africa's electricity crisis continues unabated. Economists debated the costs of most of the country's mines being shut down for almost one week, as they started to move back into partial production on January 30-31. The government has announced a stabilization plan to achieve reduced demand to bridge the five-year gap to new supply, but Eskom was already not reaching agreed targets. The mixed message from the government and Eskom raises uncertainty for large investors. The SAG and Eskom stress the importance of maintaining exports and imports with neighbors. End Summary.

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Mines Slowly Reopen After Unprecedented Closures
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¶2. (SBU) South Africa struggles with the consequences of the unprecedented closure of its mines in response to the electricity supply crisis that came to a head on January 24 when Eskom told mining companies it could no longer guarantee supply (Refs). The mines remained closed for four days, but began reopening on January ¶30. Eskom has been widely quoted that during the mine closures, 10,000 MW - or about one-quarter of its approximate 40,000 MW total capacity - was off-line due to planned and unplanned maintenance and problems with coal supply and quality. The "wet coal" excuse was debunked at the start of the episodic load-shedding at the end of 2007 with respect to coal combustion, but it has resurfaced with respect to wet coal negatively impacting its handling inside and outside the plant. A 60-Minutes-style "Carte Blanche" television expose showed that many plants' coal stock-piles were at extremely low levels and there had been problems with tendering of coal delivery contracts. Two General Electric officials told Energy Officer on January 29 that Black Economic Empowerment (BEE) affirmative action contracts for coal deliveries had been delivered in some instances to inexperienced firms who were unable to deliver coal to stock-piles.

¶3. (SBU) South Africa's top three gold producers began to ramp up production on January 30 with Eskom's assurance that it would provide 80 percent of normal supply, and then 90 percent by the end of January 31. Coal suppliers promised to boost supplies to Eskom. AngloGold Ashanti said that all of its underground mines were moving toward full production, and it hoped for resumption of normal operations the first week in February. An official at AngloGold Ashanti's Mponeng mine (where Economic officers visited just prior to the outage) confirmed to Energy Specialist that production shifts were working on January 31. A Chamber of Mines official told Energy Specialist on January 31 that it may still be difficult to assure Eskom providing substantially more than 80 percent. In fact, late on January 31, Eskom withdrew the authorization to ramp up to 90 percent "owing to system instability" and announced that mining
Qpercent "owing to system instability" and announced that mining
companies and iron/steel producers would have to maintain usage at 80 percent. The Chamber of Mines official said that mines may have to organize some sort of sequencing of production and operations. The Gold Fields CEO complained in a series of interviews that this would result in a 20 percent production decline with "profound results". Local smelter Hernic Ferrochrome said that 10 percent less electricity means 10 percent less production.

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The Government Has a Plan - But Eskom Struggles
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¶4. (SBU) Public Enterprises Minister Alec Erwin announced agreement on a stabilization action plan for mitigating the electricity crisis on January 29, which would allow mines to begin operating again by January 31 with 90 percent of their normal electricity (already in question two days later). In phase one between February 1 and the beginning of March, the SAG would cut 4,000 MW, initially through load-shedding, then through "preemptive load curtailment" and targeted reduction from specific customer categories. In the second phase from March to July, the SAG would introduce power rationing (learning from experience in Brazil), power conservation, incentives/penalties, and supply-side responses, saving a sustained

3,000 MW through 2012 when new coal-fired units start to come on line (Refs). Minister Erwin also sought to counter claims that large investments were at risk - as earlier announced by Eskom; he claimed that the power shortage was not a long-term problem. Press reports indicate that Rio Tinto is rethinking its investment for a significant aluminum smelter at Coega on the coast, for which it has a long-term contract with Eskom.

¶5. (SBU) Ministers repeated apologies for the electricity crisis in a special session of Parliament in Cape Town on January 30, but stopped short of offering any firings or resignations to satisfy the blame game. Energy Minister Sonjica Buyelwa unveiled a ten-point plan to encourage South Africans to change the way they use electricity: "We are confident that we have the ability to turn around the situation. We reassure South Africans and the world that all our projects will be on course and that the 2010 FIFA World Cup is not under any threat." Amid jeering from opposition MPs, she advised: "Go to sleep earlier so that you can grow and be cleverer." In addition, she blamed the power crisis on the "country being part of the global village." "There have been black-outs in the U.S. and Europe, and Brazil has gone through the same experience," she said.

¶6. (SBU) General Electric CEO Jeffrey Immmelt told Economic Officers on January 29 that his company was offering to help South Africa with 4,000 MW of gas-fired capacity in two years. He said that he was going to make this offer personally to President Mbeki later that day.

Links to Neighbors Important

¶7. (SBU) In frequent interviews, Minister Erwin has stressed the importance of the Southern African Power Pool and the relationship

with international partners with whom South Africa has contracts to supply electricity. Eskom's Managing Director emphasized that South Africa exports and imports electricity, citing a "huge amount of power" from Mozambique, a limited amount from Zambia, and a limited amount from as far away as the DRC. As of January 30, Eskom reported that about 300 MW was being exported primarily to Namibia and Botswana (with smaller amounts to Swaziland and Zimbabwe). Eskom has cited that it imports about 1400 MW from the Cahora Bassa hydroelectric dam on the Zambezi in Mozambique, and in turn it exports 950 MW of that to the Mozal smelter. South Africa is looking to its neighbors to provide additional electricity in the future. The proposed Mmamabula 2100+ MW coal-fired plant in Botswana is negotiating with Eskom on an off-take agreement to gain financing. An IFC official told Energy Officer that Eskom "plays hard ball" with this and other potential projects given its monopsony power.

¶8. (SBU) Speaking at a Chinese investment in Africa conference at the University of Pretoria Business School, Anglo American strategist Clem Sumter cautioned that South Africa's power crisis Qstrategist Clem Sumter cautioned that South Africa's power crisis demoted the country to the "relegation box" of the "first division" (soccer league). Failing timely resolution of the crisis, he warned, the country could slip to the "second division", negatively affecting its status as "gateway to Africa" (although there is no clear alternative to South Africa).

¶9. (SBU) COMMENT: The loss of almost a week of mining production is unprecedented and will likely have a significant effect on South Africa's economy and investment environment (mining represents 16 percent of direct and indirect GDP and significant amounts of exports and jobs.) Mining companies will now not be able to rely on an "uninterruptible contract" and this will weigh heavily on the minds of boards of directors who are considering the approval of major projects, especially energy intensive ones. In addition, mines are also grappling with the vexing challenge of safety. The AngloGold Ashanti Mponeng Gold Mine General Manager told Energy Officer on January 24 the mine's year-on-year production declined in 2007 because of the SAG "over-reacting" and shutting down production for one week because of a fatality. Now this mine and others are grappling with the uncertainty of comparable or greater closures because of electricity disruptions in 2008.

¶10. (SBU) Eskom and the government need to have a plan, including implementing more effective planning for and mitigation of electricity shortfalls. Because they have not had a viable plan to date, they have resorted to last-minute improvisation. Significant "unplanned maintenance" is the real challenge and shows the risks and uncertainty of running aging plant at peak loads for prolonged periods. Both the initial improvised measure of emphasizing load-shedding on residents and small businesses and the later approach of focusing the burden of power cuts on the mining sector are both measures that are not sustainable from a political or economic perspective.

TEITELBAUM